

Monthly Macroeconomic Review

May 31, 2009

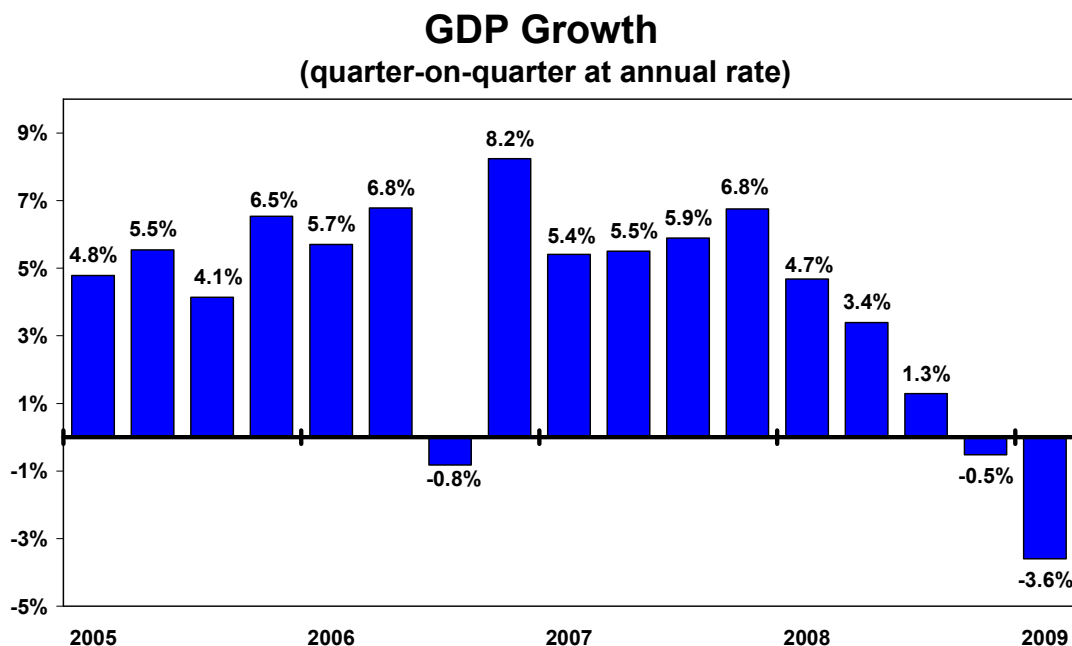
- **Real GDP** contracted at an annualized rate of 3.6 percent in the first quarter of 2009. **Private consumption, government consumption, investments, exports, and imports** decreased. **Business sector product** declined by 4.4 percent, while **per-capita GDP** decreased by 5.3 percent. Nonetheless, GDP was up 1.7 percent year-on-year, a much higher growth rate than in the other advanced countries.
- **Our growth forecast** has been adjusted downward slightly, to a negative 0.2 percent in 2009 and positive 1.4 percent in 2010.
- **The unemployment rate** in the Israeli economy grew to 7.6 percent in the first quarter of 2009, from 6.5 percent in the preceding quarter. Some of the rise in unemployment stems from a surprising increase in the **workforce participation rate**.
- **Indicators of local economic activity** in April point to a continued negative trend in the second quarter, though to a more moderate degree: exports and imports of goods decreased, while incoming tourism grew slightly. In March, the industrial production index decreased, whereas revenues of trade and service sectors increased.
- **The government has approved the state budget for 2009-2010**. According to the budget proposal, the budget deficit will reach 6 percent of GDP in 2009 and 5.5 percent in 2010.
- **The consumer price index** rose by 1.0 percent in April, in line with expectations.
- **The Bank of Israel** left the interest rate unchanged at 0.5 percent, as expected. The BOI continues to buy foreign currency and government bonds as planned.
- **The unlinked government bond yield curve** rose throughout in May, with the long-term part reaching a level similar to that of last September, before the series of interest-rate cuts by the BOI.
- **World equity markets** showed gains in May, further to the increases of March and April. The MSCI World index rose by 9 percent, and the MSCI Emerging Markets index rose by 17 percent. The **TA-100 index** rose by 9 percent, or 15 percent in dollar terms.

This review contains five chapters:

- A. Developments in the Israeli Economy.
- B. Developments in the Capital Market.
- C. Developments in Inflation and Monetary Policy.
- D. Developments in the Global Economy.
- E. Macroeconomic forecasts. This chapter presents detailed macroeconomic forecasts for 2009-2014.

A. Developments in the Israeli Economy

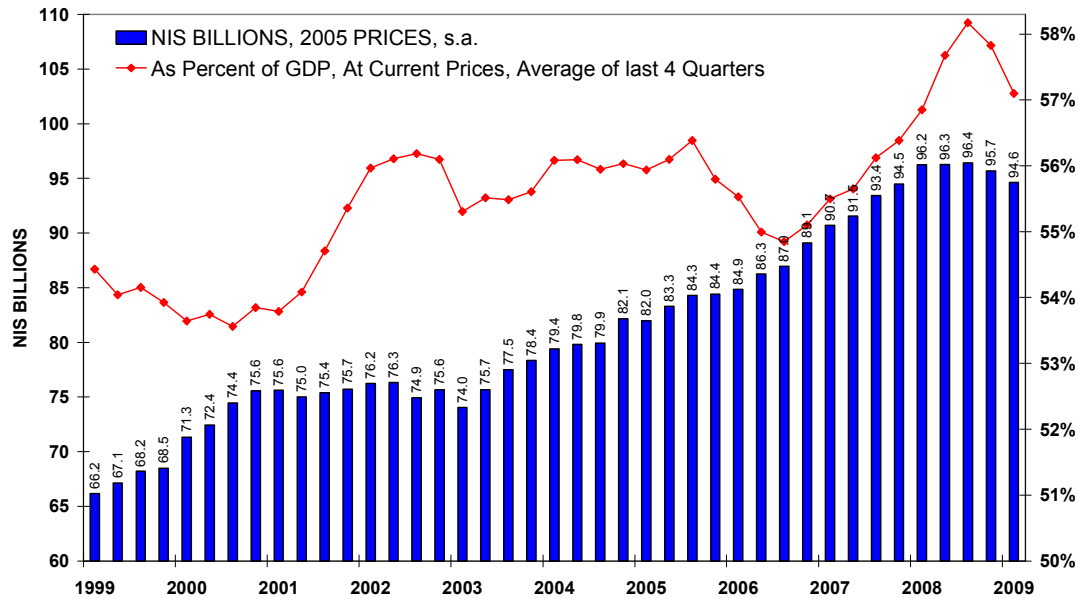
Gross domestic product contracted at an annualized rate of 3.6 percent in the first quarter of 2009, while **business product** decreased at a rate of 4.4 percent and **per-capita GDP** fell at a rate of 5.3 percent.



The **growth rate in Israel** in the first quarter was less negative than in the **United States** and **Europe**, where growth was at annual rates of negative 6 percent and negative 10 percent respectively, but the growth composition data paint a bleak picture.

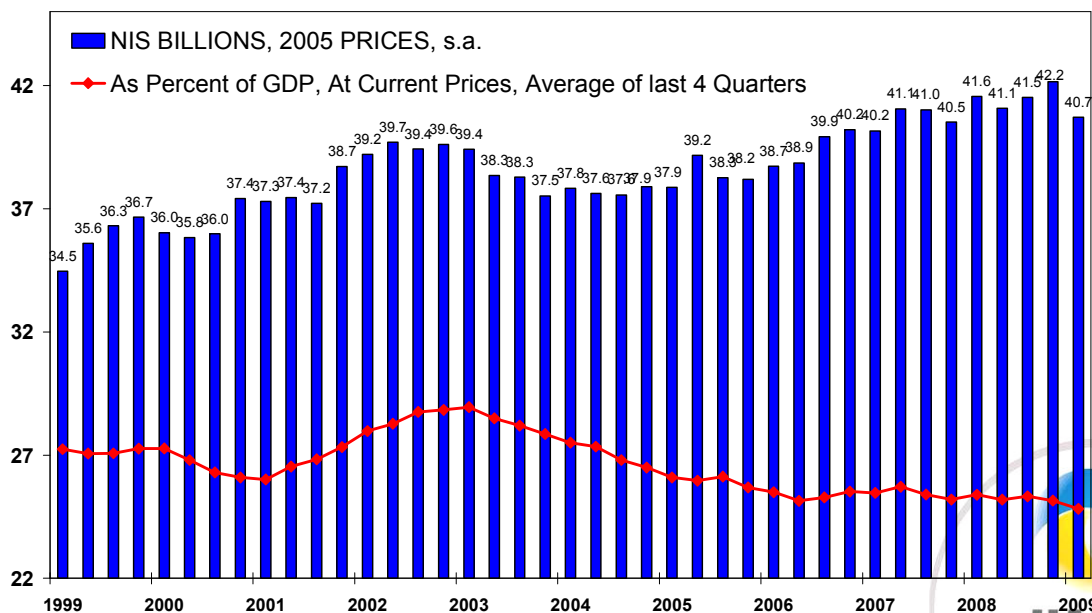
Private consumption decreased at an annualized rate of 4.3 percent, with a significant decrease in consumption of durable goods (furniture, home appliances, and vehicles). Private consumption as a percentage of GDP fell to 57.1 percent over the last four quarters.

Private consumption expenditure



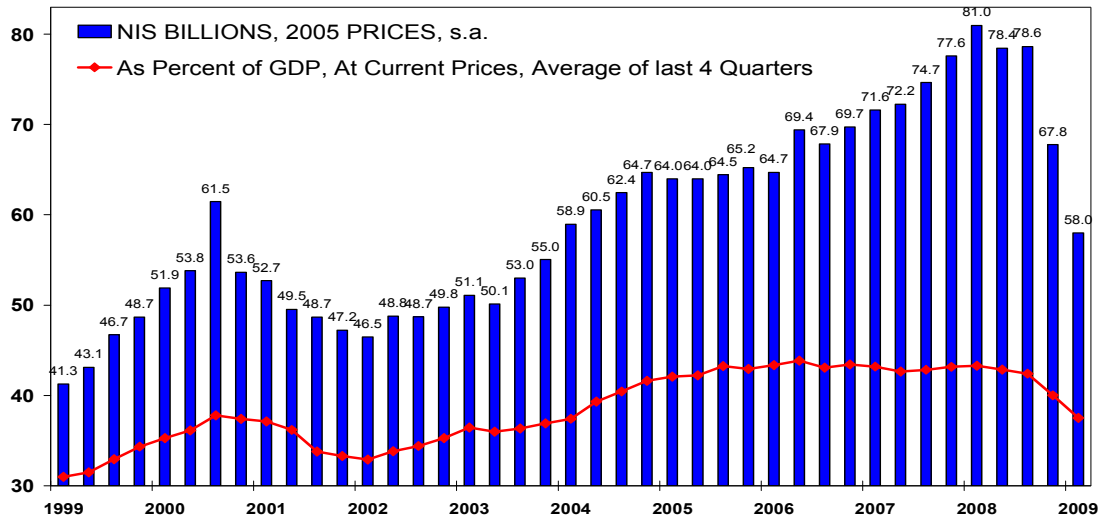
Public consumption spending decreased at an annualized rate of 13.0 percent, apparently due to the absence of a budget. We expect a substantial increase in the share of public consumption in GDP in the coming quarters.

General Government Consumption Expenditure



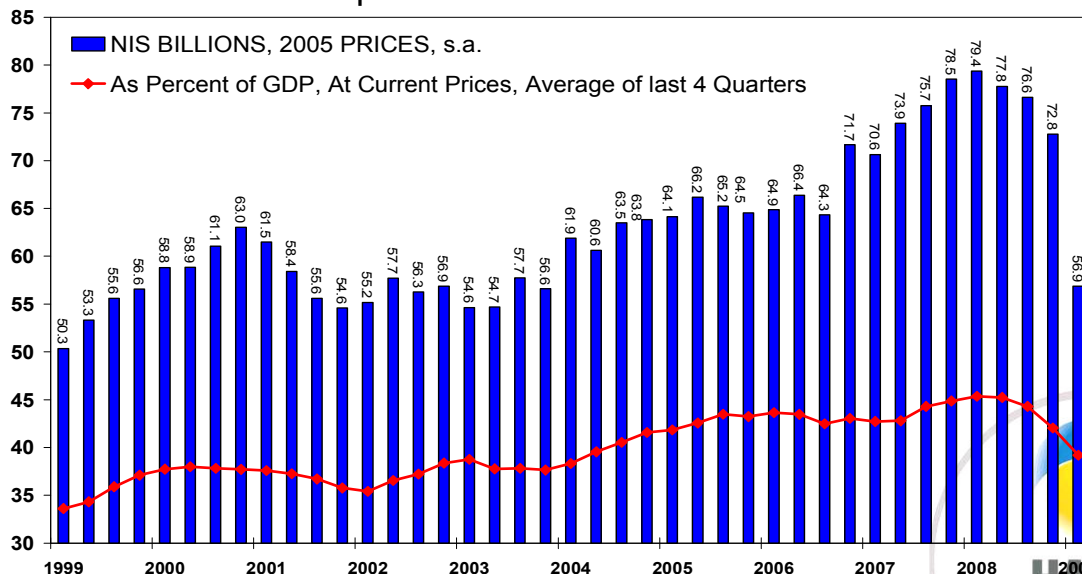
Exports dropped sharply, at an annualized rate of 46.3 percent, due to the slowdown in the global economy, and in a delayed reaction to the real appreciation of the shekel in the first half of 2008. Exports excluding diamonds and start-up companies decreased by 49.9 percent. The rate of exports out of GDP, which had been stable since 2005, decreased very sharply in the last two quarters.

Exports of Good and Services

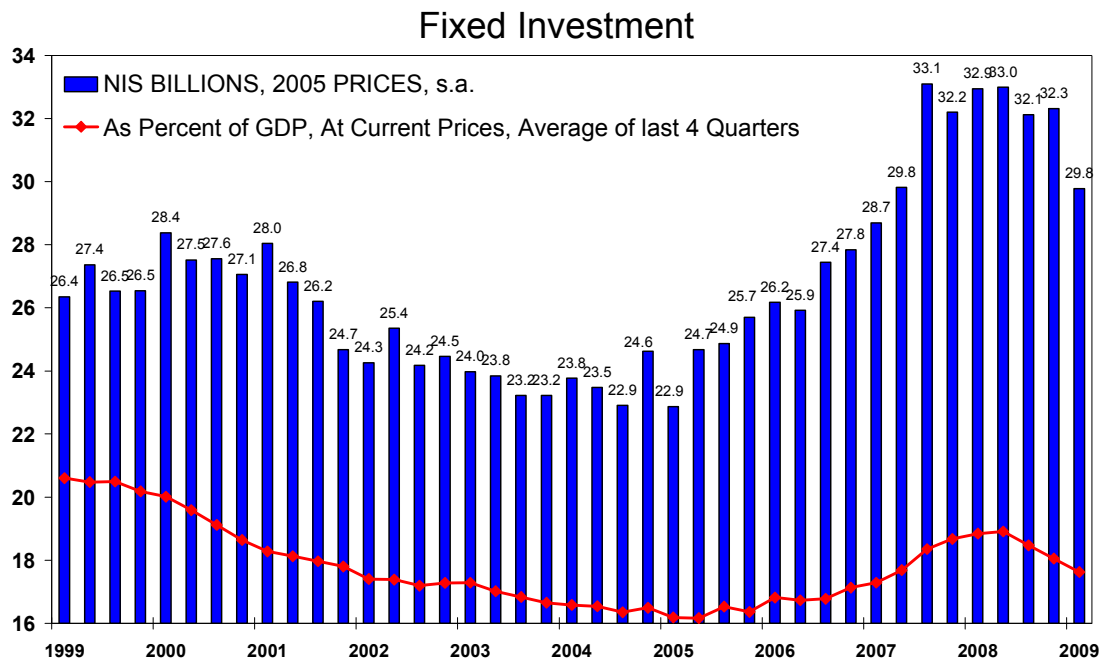


Imports fell sharply, at an annualized rate of 62.7 percent, following an 18.6 percent decrease in the preceding quarter. The share of imports in GDP, which had risen steadily over recent years, dropped in the last three quarters and is expected to fall further in the coming quarters. The sharp drop in **imports of goods and services** "prevented" a still greater decrease in GDP.

Imports of Good and Services



Fixed-asset investments decreased at an annualized rate of 27.8 percent. Investments as a percentage of GDP have recovered impressively since 2005, but the recovery halted in recent quarters. Particularly disturbing is the 61 percent decline in firms' investments in machinery, equipment, and vehicles, which indicates the firms' expectation that the crisis will persist in the coming quarters.



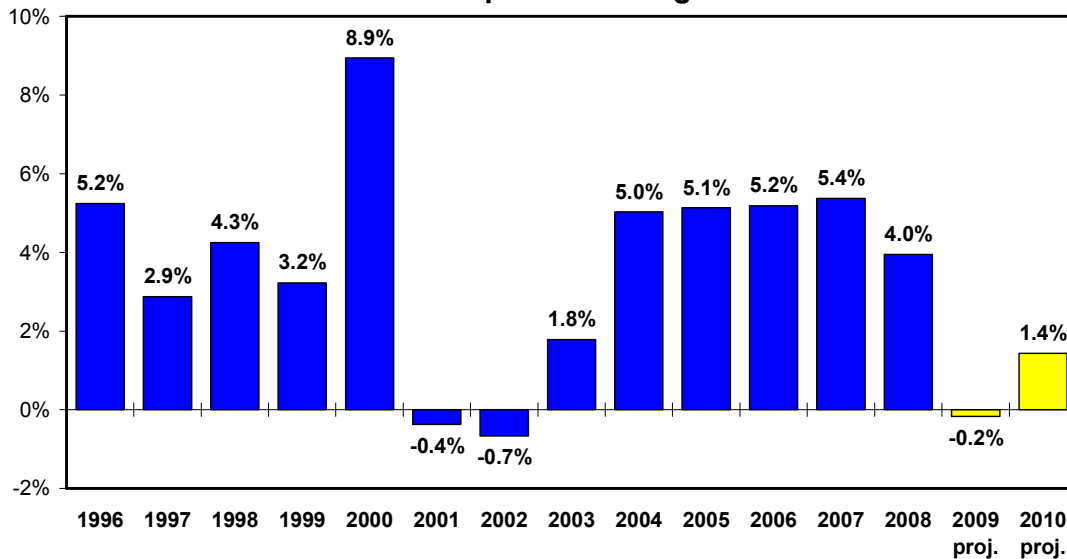
Our growth forecast for Israel in 2009 now stands at a negative 0.2 percent, versus our estimate of zero three months ago. Over the last three months, growth forecasts for 2009 have fallen from negative 2.0 percent to negative 2.9 percent in the United States, and from negative 2.1 percent to negative 3.7 percent in the euro zone. The slowdown in growth could have been more severe if not for the interest-rate cuts by the BOI and the depreciation of the shekel over the last year. The estimate by the Central Bureau of Statistics for GDP in the first quarter, which is 1.7 percent higher than in the same quarter last year, may be adjusted downward; in that case, our growth forecast for 2009 would also be revised downward.

Our growth forecast for 2010 stands at 1.4 percent. Among other factors, this forecast assumes that growth in 2010 will reach 0.0 percent in the US and negative 0.4 percent in the euro zone, according to the current forecasts by the International Monetary Fund.

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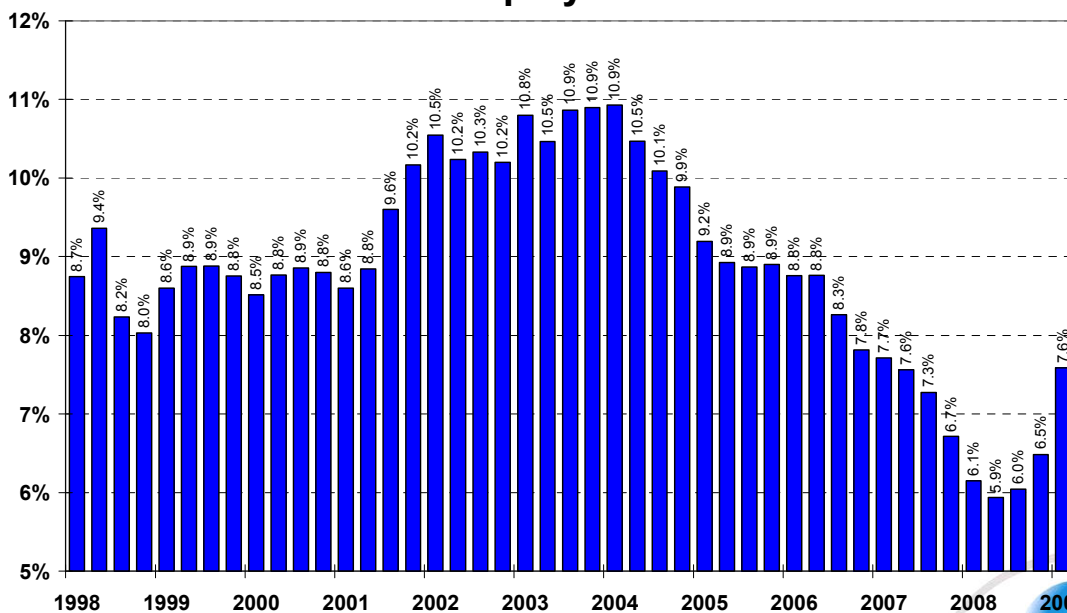
GDP Growth annual percent change



We expect higher growth rates of 3.5-4.0 percent in **2011-2014**. A **detailed macro-economic forecast** is presented in Section E below.

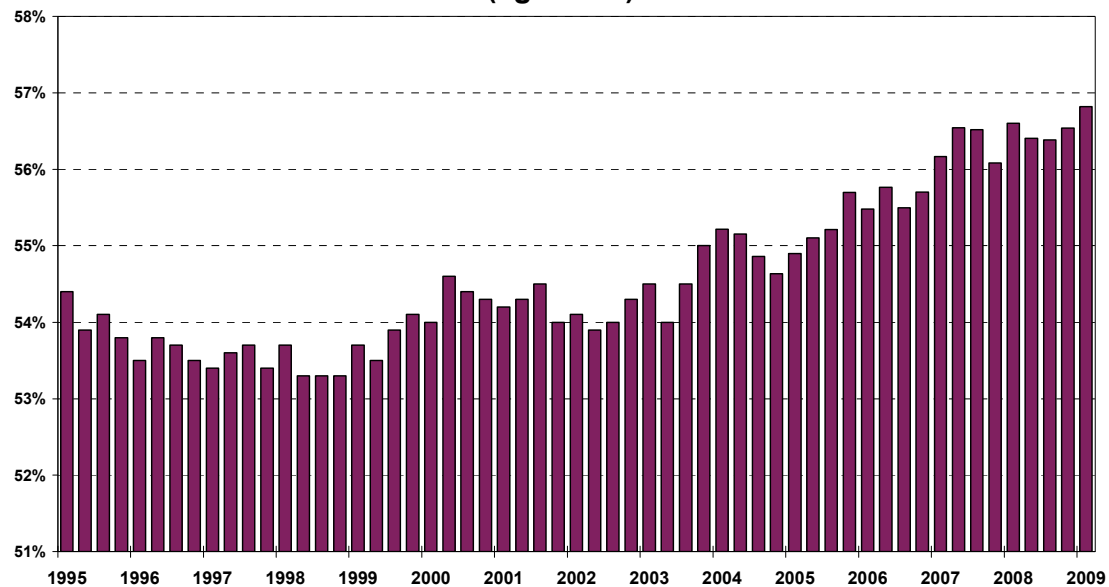
Unemployment rose sharply in the first quarter of 2009, to 7.6 percent, from 6.5 percent in the previous quarter. The number of employed persons decreased by 0.3 percent.

The Unemployment Rate



The workforce participation rate rose to 56.8 percent, from 56.5 percent in the preceding quarter. The increase was surprising given the recession, and accounts for a large part of the increase in unemployment.

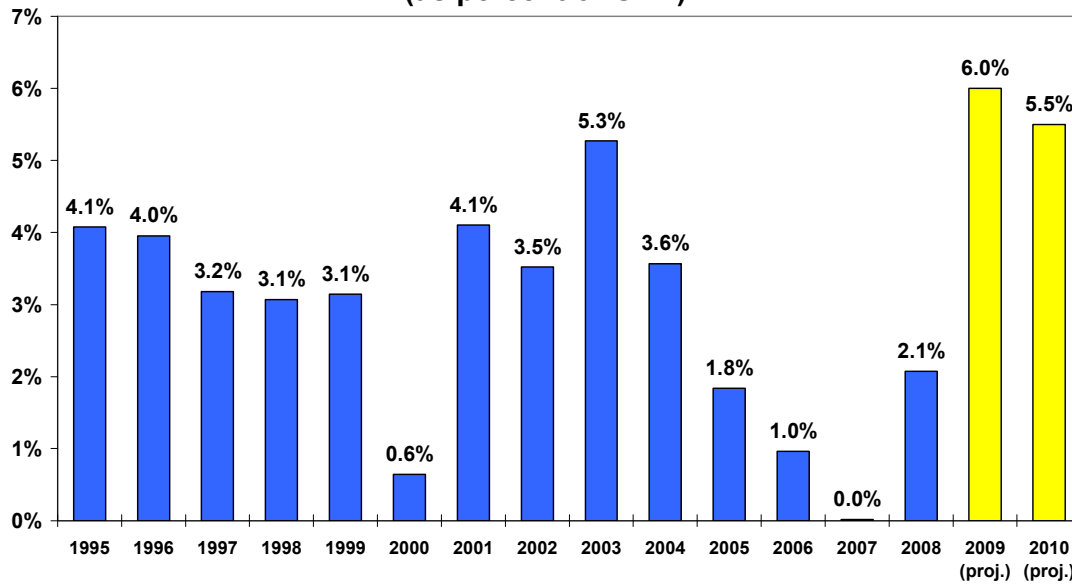
**Labor Participation Rate
(ages 15+)**



The government has approved the state budget for 2009-2010. According to the budget proposal, which has not yet been approved by Knesset, real government expenditures will grow by approximately 3 percent each year in 2009 and 2010. In 2011, real expenditure growth will return to 1.7 percent. The budget deficit will be limited to 6 percent of GDP in 2009 and 5.5 percent of GDP in 2010. These are very high deficits, the largest in the last 25 years, but given the severe difficulties in formulating the budget, there were fears that the deficit might be still greater. The assumptions underlying the budget, such as expected tax revenues, will not be published until the budget is submitted to Knesset in mid-June, so that it is too early to estimate whether the deficit targets are attainable. Excessively optimistic assumptions could damage the government's credibility, increase the deficit and the government's actual funding needs, and lead to an increase in bond yields.



The Central Government Budget Deficit (as percent of GDP)



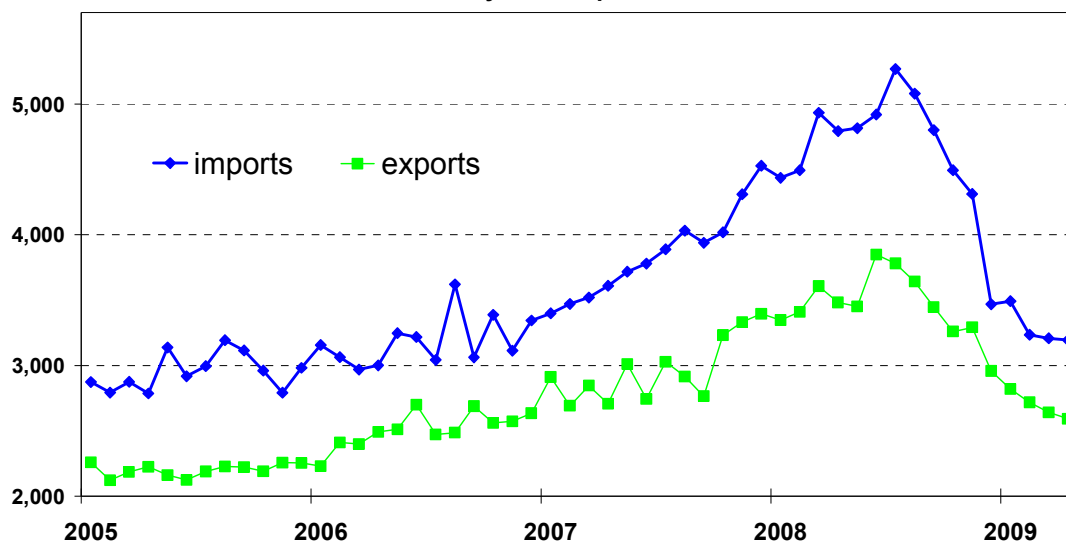
The budget approval process involved several crises. In the end, a number of essential decisions were made against the opinion of the Ministry of Finance, and the Head of the Budgets Division resigned. This has damaged policy credibility and raised questions about the government's commitment to maintaining prudent, responsible economic policies. Thus, for example, the government resolved to gradually reduce budget deficits over the period of 2011-2014, to just 1 percent of GDP by the end of that period; however, it is unclear at this point whether it will be able to take the necessary steps towards that end, such as cutting costs and raising taxes.

Indicators of economic activity in April point to a continued negative trend in the second quarter, though to a more moderate degree: exports and imports of goods decreased, while incoming tourism grew slightly. In March, the industrial production index decreased, whereas revenues of trade and service sectors increased.



Exports of goods (excluding ships, aircraft, and diamonds; in dollar terms) decreased by 2 percent in April and by 26 percent in the twelve months ended in April. **Imports of goods** remained unchanged in April, but were down by 36 percent in the twelve months ended in April. The **trade deficit** in April consequently reached USD 600 million.

Exports and Imports of Goods
(US\$ millions per month, excl. diamonds, ships & airplanes)
January 2005 - April 2009

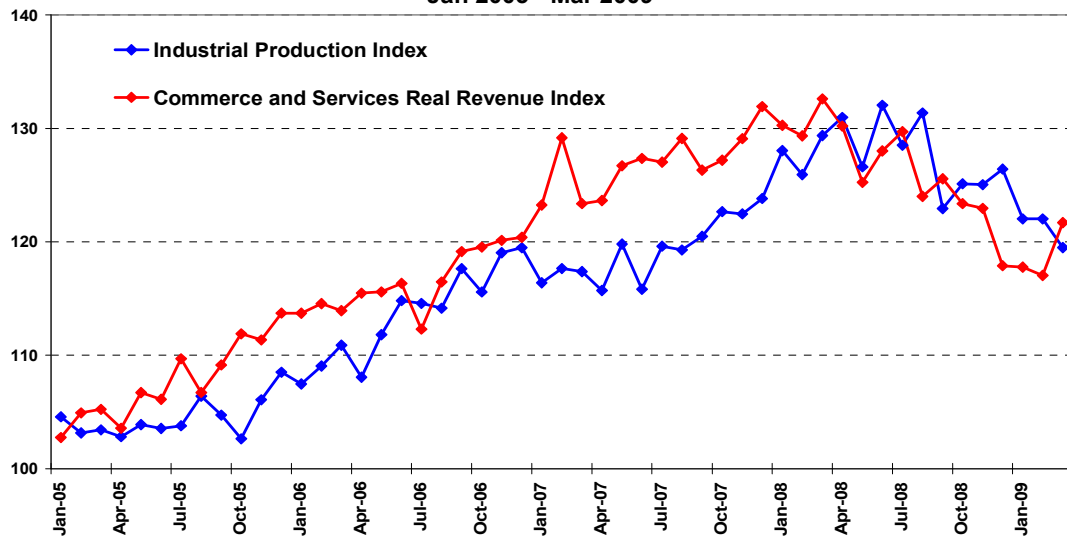


The number of **incoming tourists** by air grew by 2 percent in April, but was still 18 percent lower than in April 2008.

State tax revenues totaled ILS 14.1 billion in April. This figure was slightly higher than our estimate, but the difference mainly stems from one-time income from the HP deal, so that there is no substantial change in the annual forecasts.

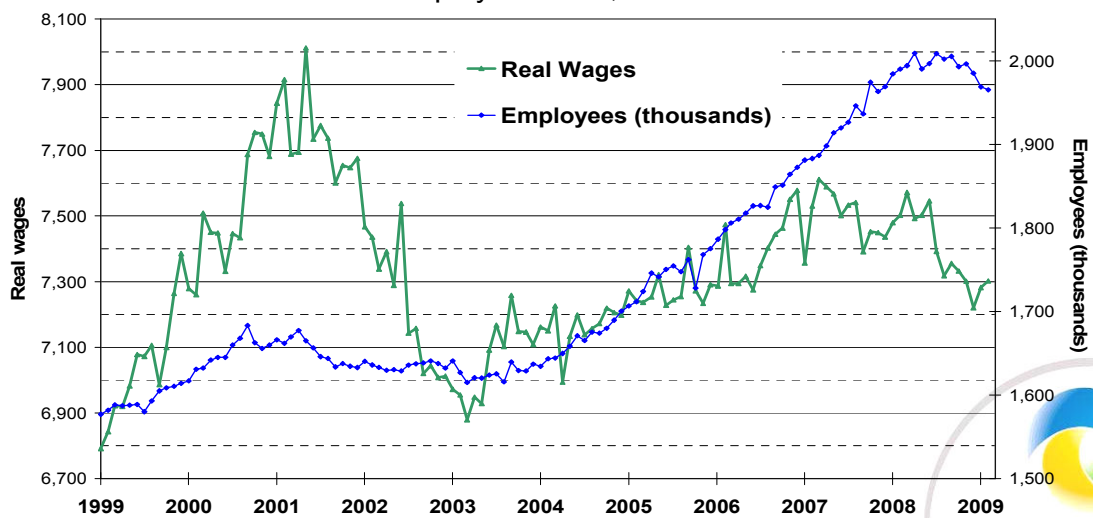
The **industrial production index** decreased by 2 percent, and the **trade and service sectors revenue index** increased by 4 percent, in March. Both indices decreased by 8 percent in the twelve months ended in March and by 3 percent in the first quarter of 2009.

Industrial Production Index & Commerce and Services Sectors Revenue Index Jan 2005 - Mar 2009



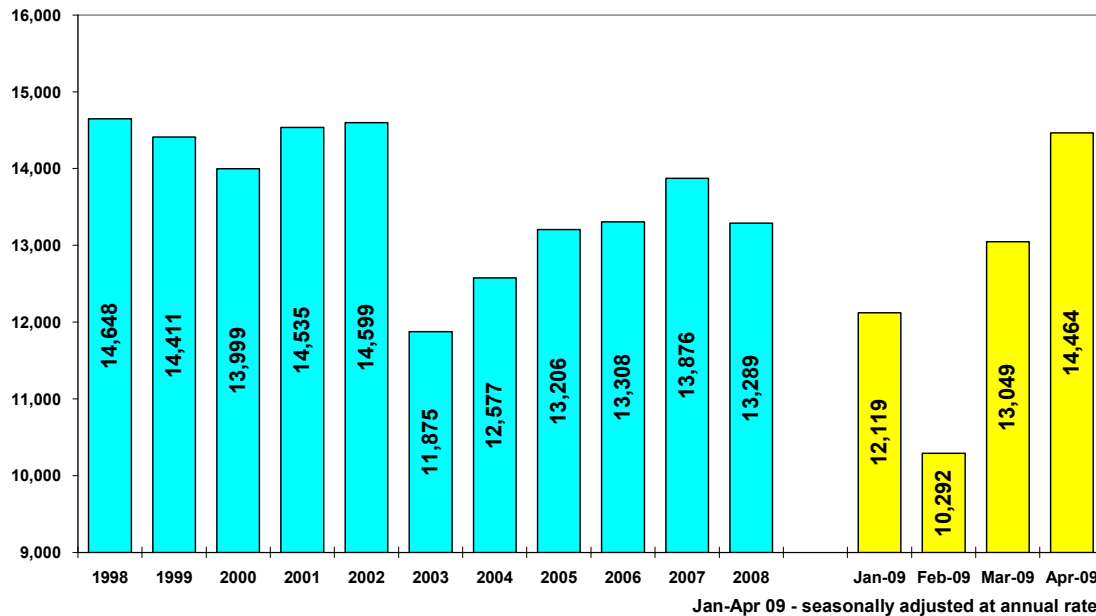
The number of employee positions and average nominal wages remained stable in February. The number of positions of Israeli employees remained unchanged in February, and decreased by 0.3 percent in the twelve months ended in February. Average nominal wages for employee positions of Israelis decreased by 0.1 percent in February, and increased by 0.1 percent in the twelve months ended in February, alongside a decrease in real wages (net of the consumer price index). In the **business sector**, the number of employee positions decreased by 0.2 percent, including non-Israelis, while real wages increased by 0.3 percent.

Business Sector's Real Wages and number of Employee Posts, Jan 1999 - Feb 2009



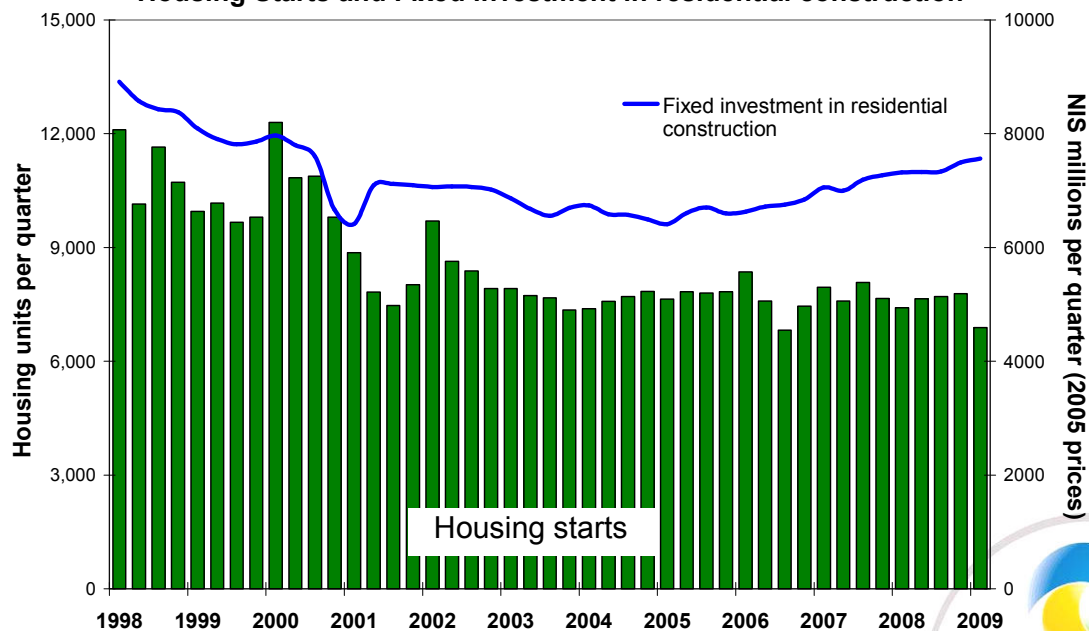
The number of new homes sold grew by 10 percent in April, and by 21 percent in the twelve months ended in April, following an upward adjustment of the previous month's data.

New Dwellings Sold During The Period



Construction starts fell sharply, by 12 percent, in the first quarter of 2009, and by 7 percent in the last four quarters. This was the steepest decline in construction starts since the third quarter of 2006 (negative 10 percent), which encompassed the war in northern Israel.

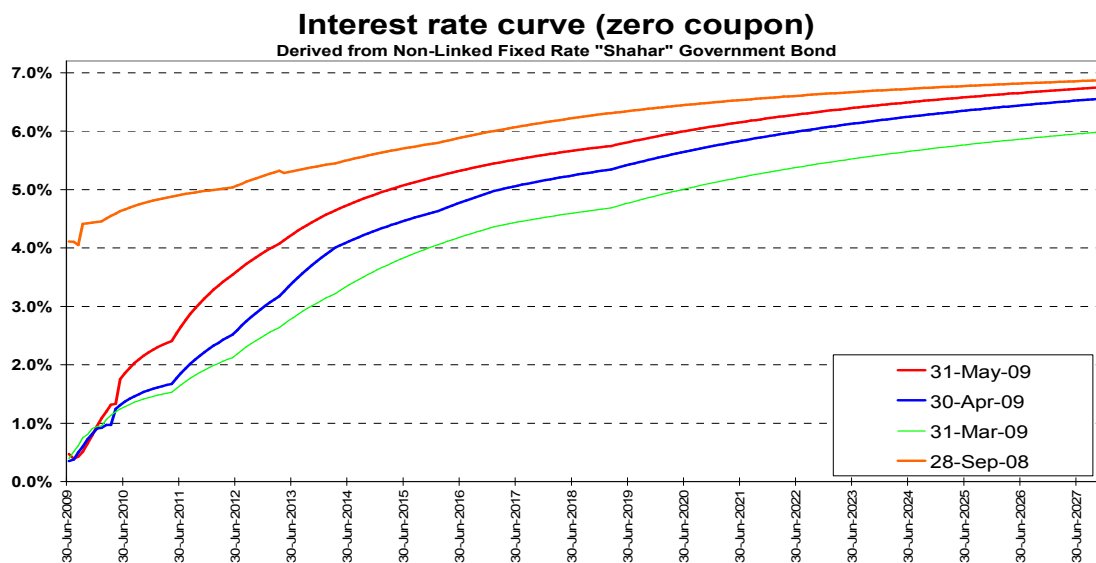
Housing Starts and Fixed investment in residential construction



B. Developments in the Capital Market

Bond Market

The unlinked government bond yield curve rose throughout in May, with the long-term part reaching a level similar to that of last September, before the series of interest-rate cuts by the BOI. The increase in government bond yields abroad, the substantial deficit expected in Israel in the coming years, and the instability of fiscal policies given the difficulties that emerged during the process of passing the budget supported this move.



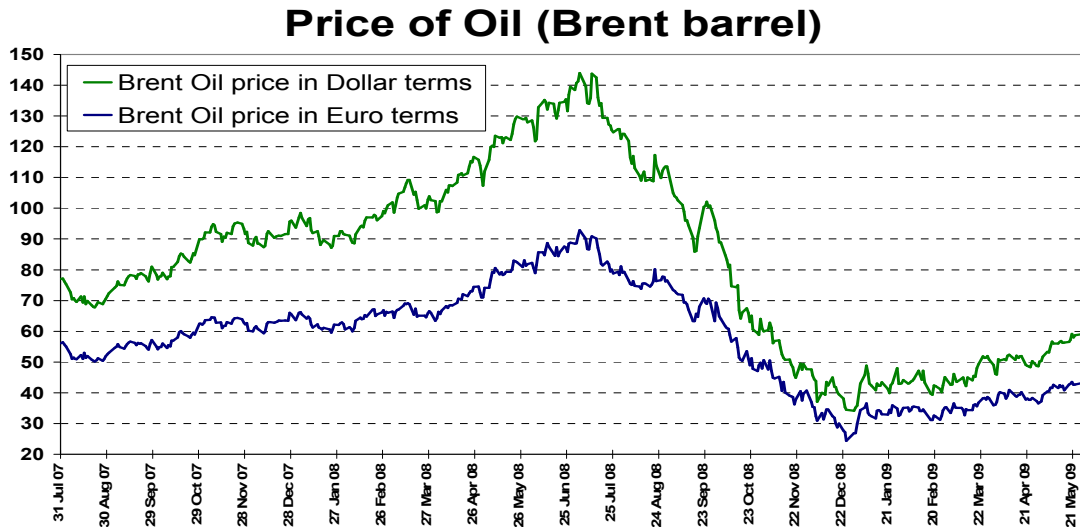
Exchange Rates

The shekel strengthened by 4 percent against the currency basket and by 6 percent against the dollar in April, while remaining almost unchanged against the euro.



Oil Prices

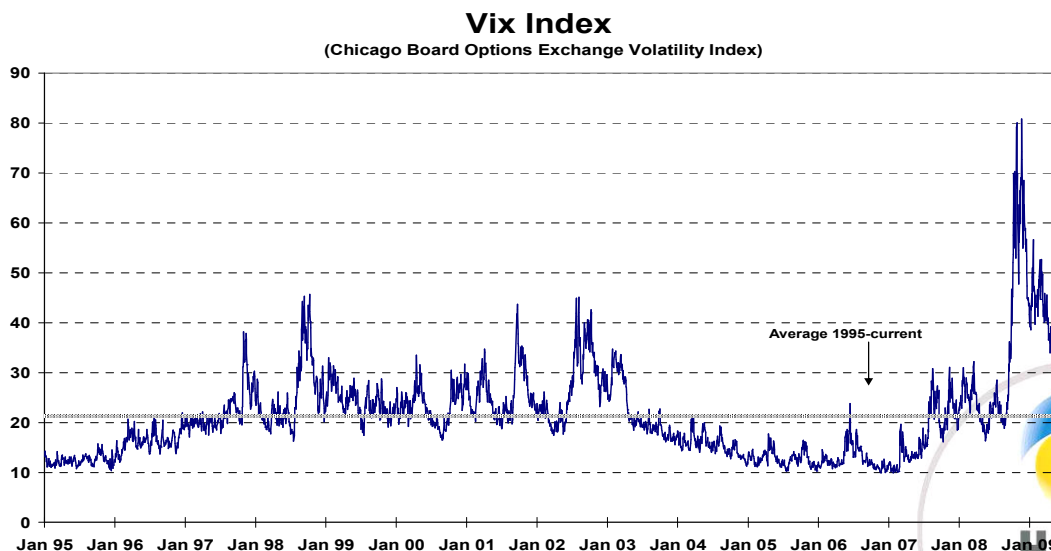
The price of a Brent oil barrel rose sharply in May, by 29 percent in dollar terms or 24 percent in euro terms.



Stock Markets

World equity markets showed gains in May, further to the increases of March and April. The MSCI World index rose by 9 percent, the S&P 500 rose by 9 percent. The NASDAQ index rose by 5 percent and the MSCI Emerging Markets index rose by 17 percent. The TA-100 index rose by 9 percent, or 15 percent in dollar terms.

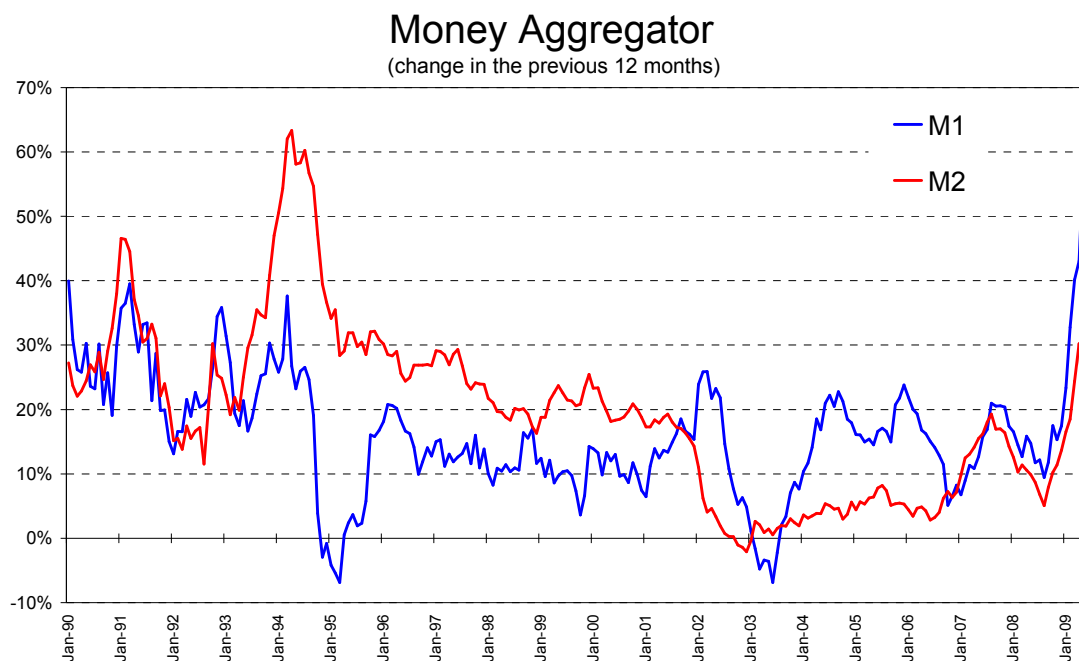
The Vix index, a popular metric of implied volatility in the equity market in the short term based on tracking of S&P 500 index option prices, decreased by 21 percent in March, and was 64 percent below the October peak.



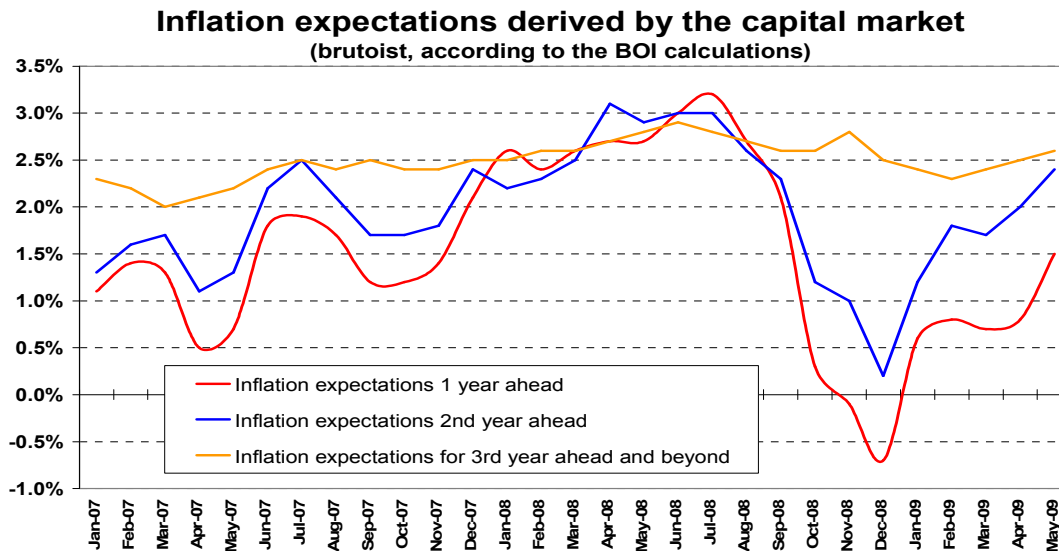
C. Developments in Inflation and Monetary Policy

The April **consumer price index** rose by 1.0 percent, in line with the average forecast. Inflation in the twelve months ended in April totaled 3.1 percent. Next month, inflation is expected to converge into the target range of 1 to 3 percent, following 17 consecutive months of above-target inflation.

The **amount of means of payment** (M1 aggregate) grew by 11 percent in April and by 59 percent in the twelve months ended in April. **The amount of means of payment plus unlinked deposits for up to one year** (M2 aggregate) grew at a more moderate rate of 19 percent in the last twelve months. The large increase in M1 appears to derive in part from the redirection of deposits into current accounts, due to the low interest on deposits included in the M2 aggregate. However, such a large increase in the quantity of liquid money could lead to instability and inflation.



According to calculations by the BOI, **inflation expectations** stood at 0.9 percent for the first year, 2.4 percent for the second year, and 2.6 percent for the third year forward, on average, between mid-April and mid-May – an increase relative to the preceding months.



To achieve the deficit targets, given the government's inability to carry out sufficient cutbacks on the expenditure side, a decision was made to **raise taxes**, mainly indirect taxes. According to our estimates, the increase in indirect taxation should contribute an increase of about 1 percent in the **consumer price index**. As this is a one-time price hike not caused by demand pressures, the BOI is not expected to take it into consideration in establishing monetary policy.

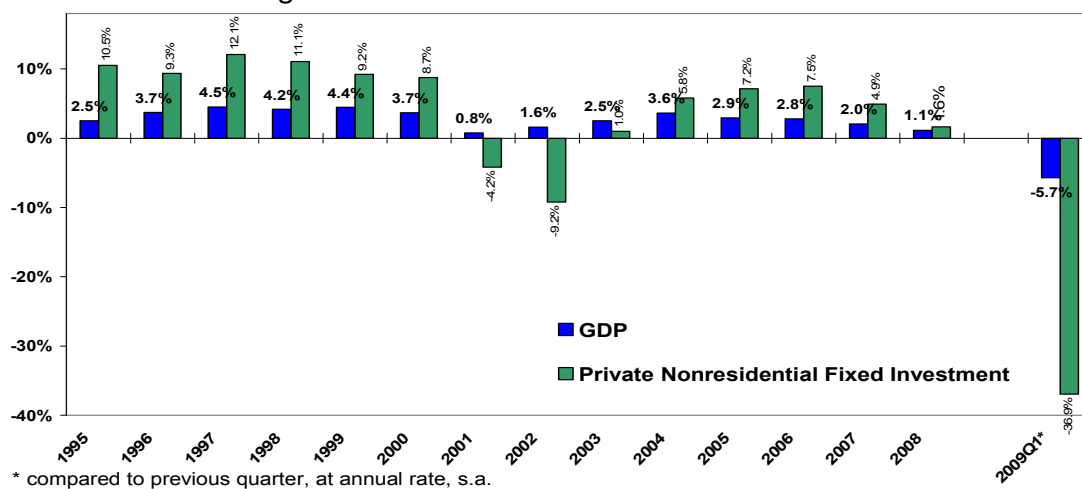
The Bank of Israel left the interest rate unchanged at 0.5 percent, in line with our expectation and with most economists' predictions. The BOI said, on an optimistic note: "Data coming from the financial field, and recently from the real arena as well, indicate possible moderation of the negative trend in economic activity. However, renewed growth is not expected until the end of this year. At this stage, the low interest rate along with the other measures applied by the BOI support the return of positive growth to the economy." We therefore estimate that the BOI is not planning further moves towards monetary expansion in the near future. Furthermore, we expect the BOI to continue to purchase foreign currency in the near future, with the aim of weakening the shekel and supporting competition in exports and economic growth. Even if the shekel weakens, the BOI is not likely to stop foreign-currency purchases suddenly, but to gradually reduce the volume of daily purchases while testing market reactions.

D. Developments in the Global Economy

United States

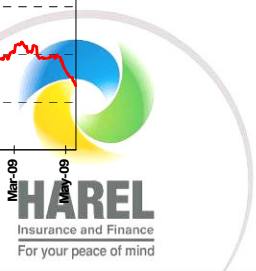
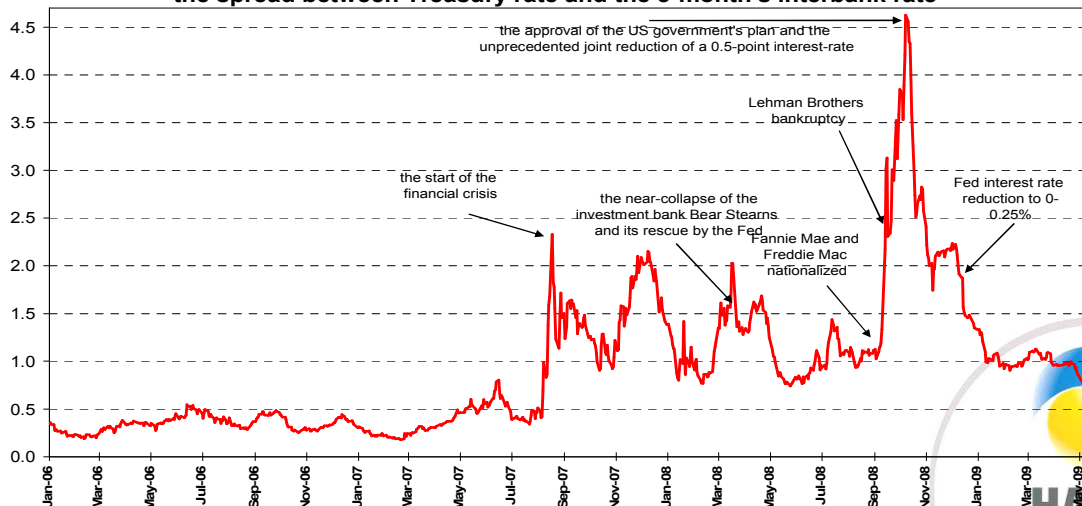
The US economy contracted by 5.7 percent, in annualized terms, in the first quarter of 2009, a slightly more moderate decline than the initial estimate and in comparison to the preceding quarter. Firms' investments and exports fell sharply, while private consumption increased at a moderate rate of 1.5 percent.

The U.S. Economy, 1995-2009
Real growth rates of GDP and business investment



The financial-system liquidity crisis was considerably tempered by the actions taken by the government and the Fed. The risk premium reflected by the gap between the interbank interest rate and the interest on three-month government bonds contracted to 0.5 percentage points.

"Liquidity Premium"
the spread between Treasury rate and the 3-month's interbank rate



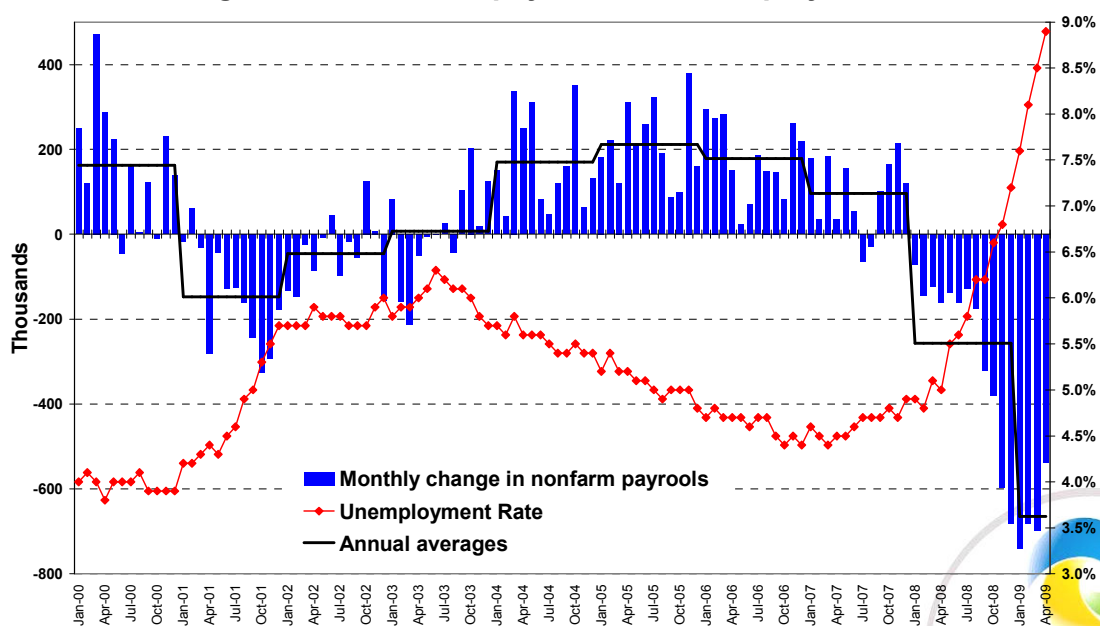
Results of the "stress tests" performed by the US government at the nineteen largest American banks have been released. Ten of the nineteen banks were found to need to raise additional capital, though at relatively moderate volumes. However, it appears that the "pessimistic" scenario at the foundation of these tests was insufficiently pessimistic; it described a situation similar to the central scenario of the IMF and other forecasters. Thus, if macro-economic developments are surprisingly negative, the banks' condition may be far worse than indicated by the results of the stress tests.

Government bond yields continued to rise, with an increase in inflation expectations.

In line with our estimates in recent months, **inflation expectations** derived from the gap between linked and unlinked government bonds have increased to an average of 1.3 percent for the next five years and 1.8 percent for the next ten years, in contrast to average inflation of 0.2 percent a few months ago.

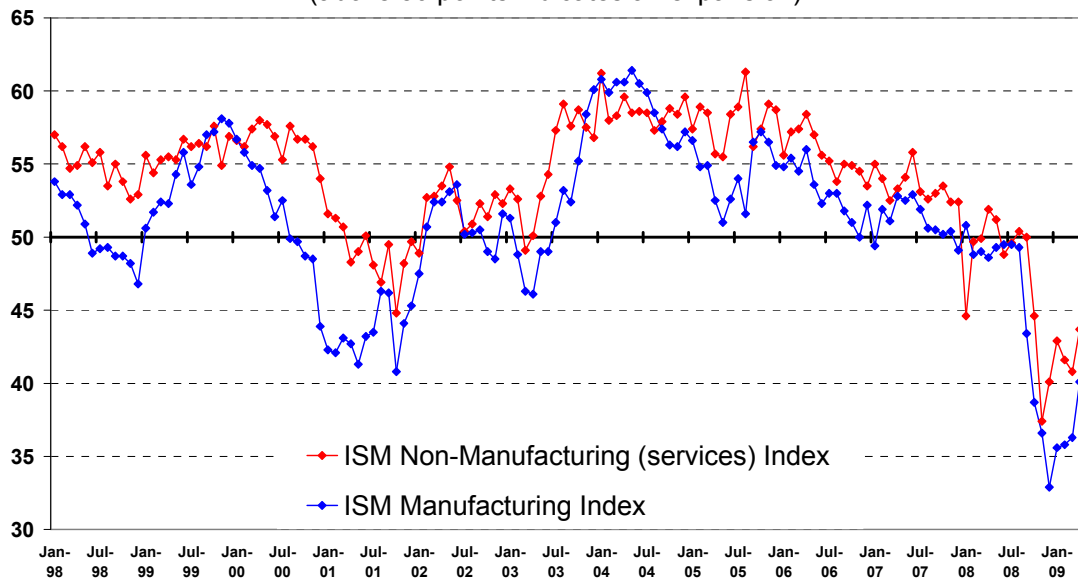
The **employment report** for April was quite negative, though less so than expected. The economy lost about 540,000 jobs in April, as the unemployment rate continued to break records, rising to 8.9 percent.

Change in U.S. nonfarm payrolls and Unemployment rate



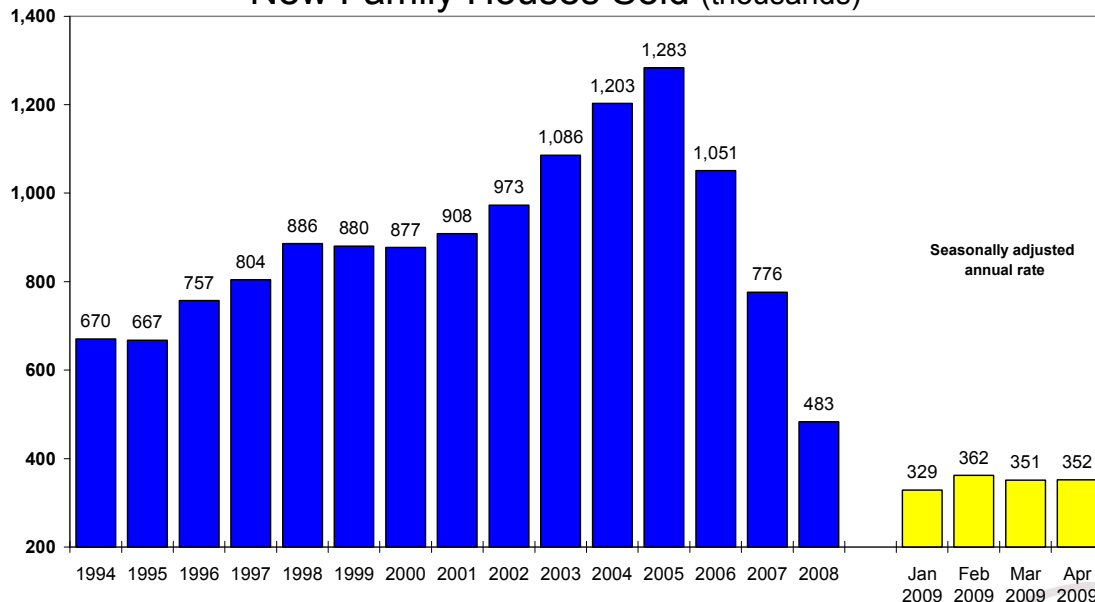
The ISM services sector index stood at 43.7 points in April, higher than expected.

The Institute for Supply Management Index (above 50 points indicates an expansion)

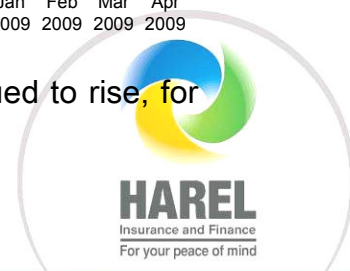


Housing-market figures published this month were mostly weaker than expected. Sales of new homes remained almost unchanged in April, versus expectations of improvement.

New Family Houses Sold (thousands)



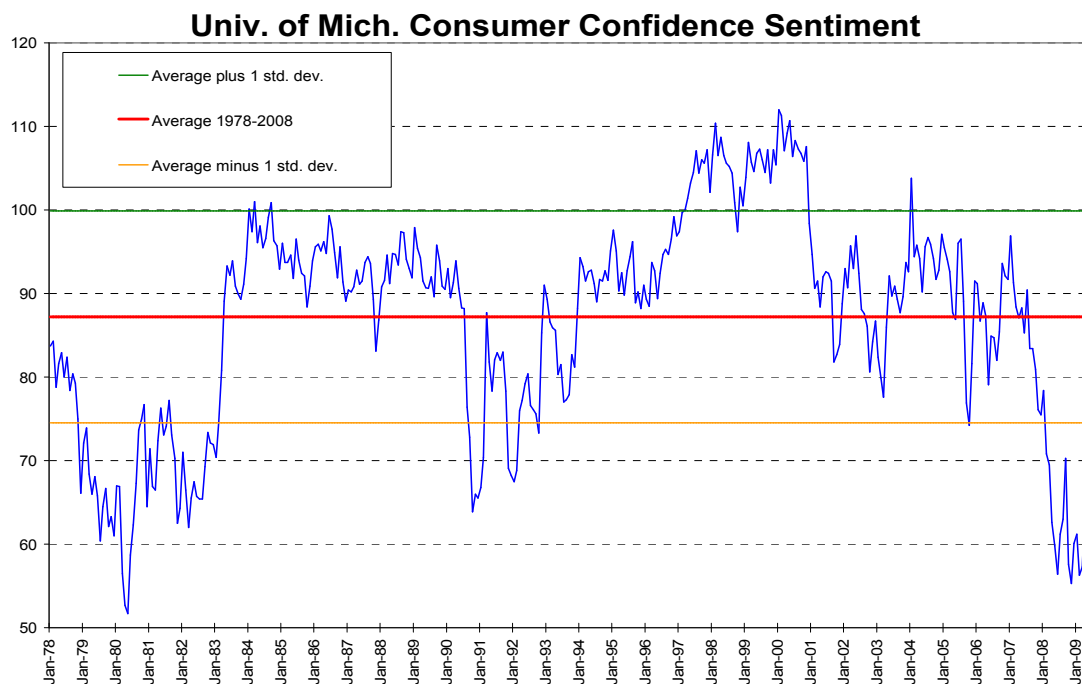
Sales of existing homes increased in April, while prices continued to rise, for the fourth consecutive month, according to Realtors data.



Construction starts and permits decreased by 13 percent and 3 percent in April, respectively, in sharper-than-expected declines. The **S&P Case Shiller index** of housing prices in twenty major US cities decreased by 2 percent in March, and was 32 percent lower than the peak of July 2006.

The **consumer price index** remained unchanged in April, and **inflation** in the twelve months ended in April reached a negative 0.7 percent. However, the **core index**, excluding food products and energy, rose by a higher-than-expected 0.3 percent, and total core inflation was 1.9 percent.

Consumer confidence indices rose more than expected in May. The increase contributed to a leap in **equity markets** and **oil prices**.

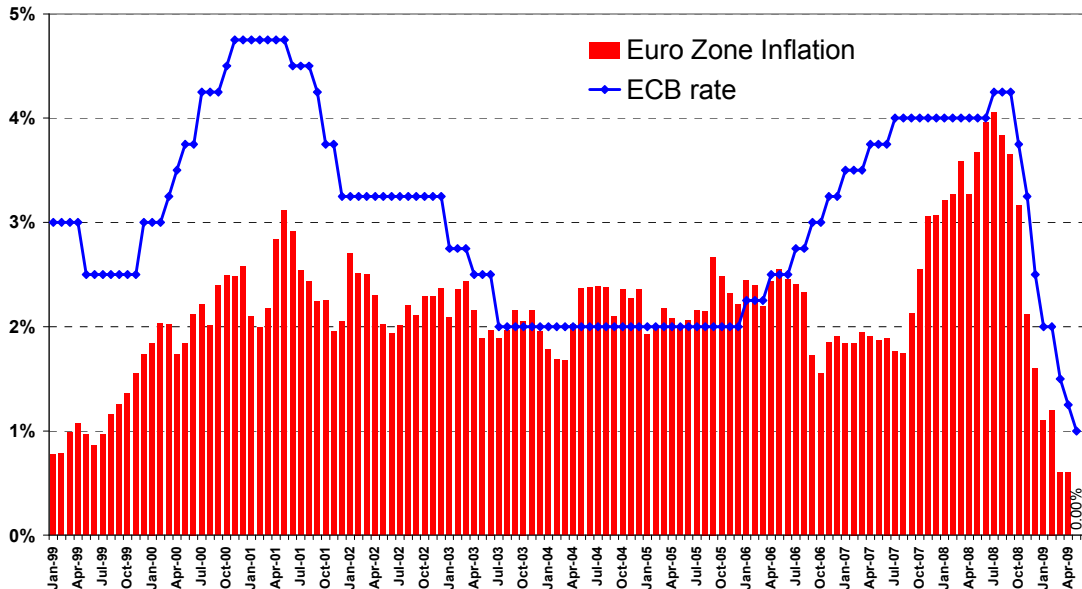


Europe

The contraction of the economy in the euro zone continued for the fourth consecutive quarter. **GDP** decreased by 2.5 percent, or an annualized 10 percent, in the **first quarter of 2009**, a sharper decline than expected. Particularly poor data were recorded in **Germany**, with negative 3.8 percent growth, or 14 percent annualized.

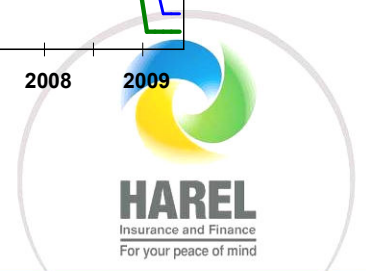
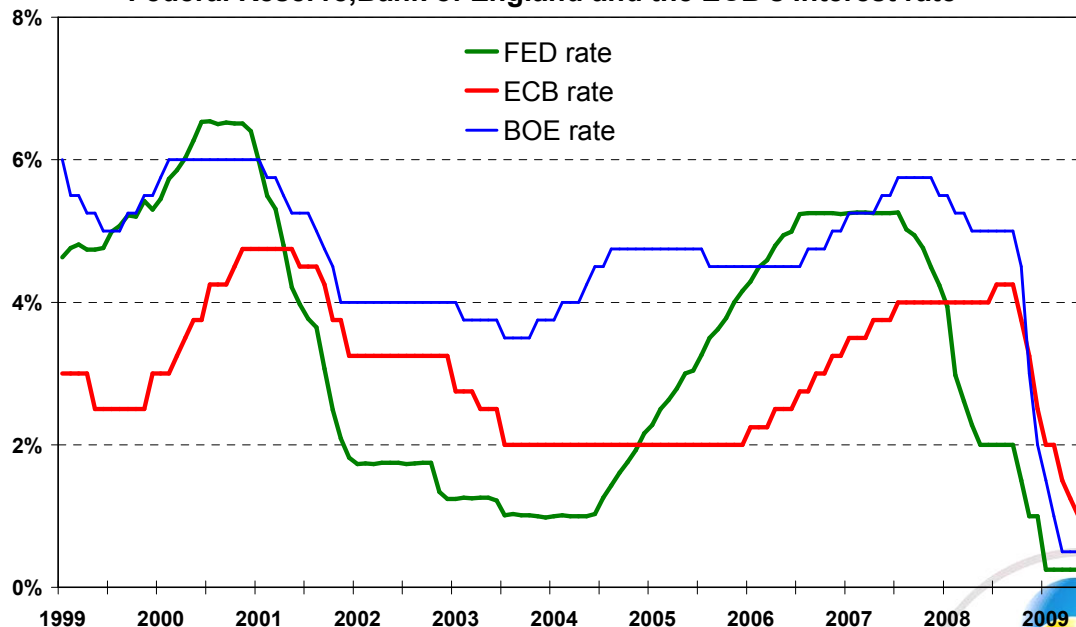
Inflation stood at zero in the twelve months ended in May, according to an initial indicator, lower than expected.

Euro Zone Inflation and ECB Interest Rate

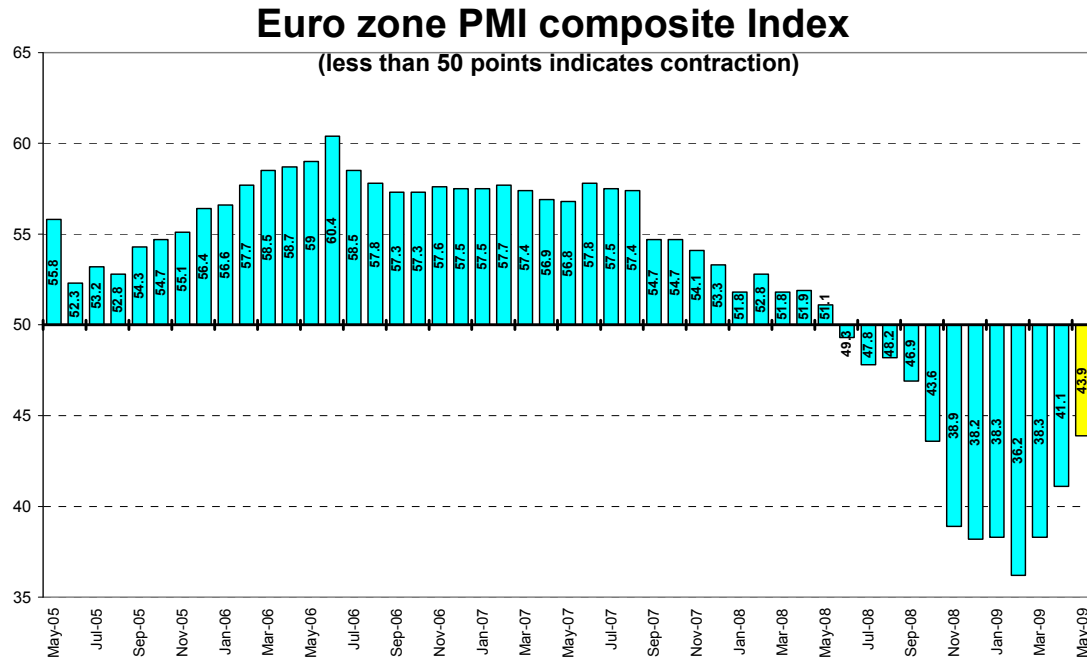


The **European Central Bank** lowered the interest rate by 0.25 percentage points to a historic low of 1.0 percent, as expected. The **UK's central bank** left the interest rate at 0.5 percent, in line with estimates.

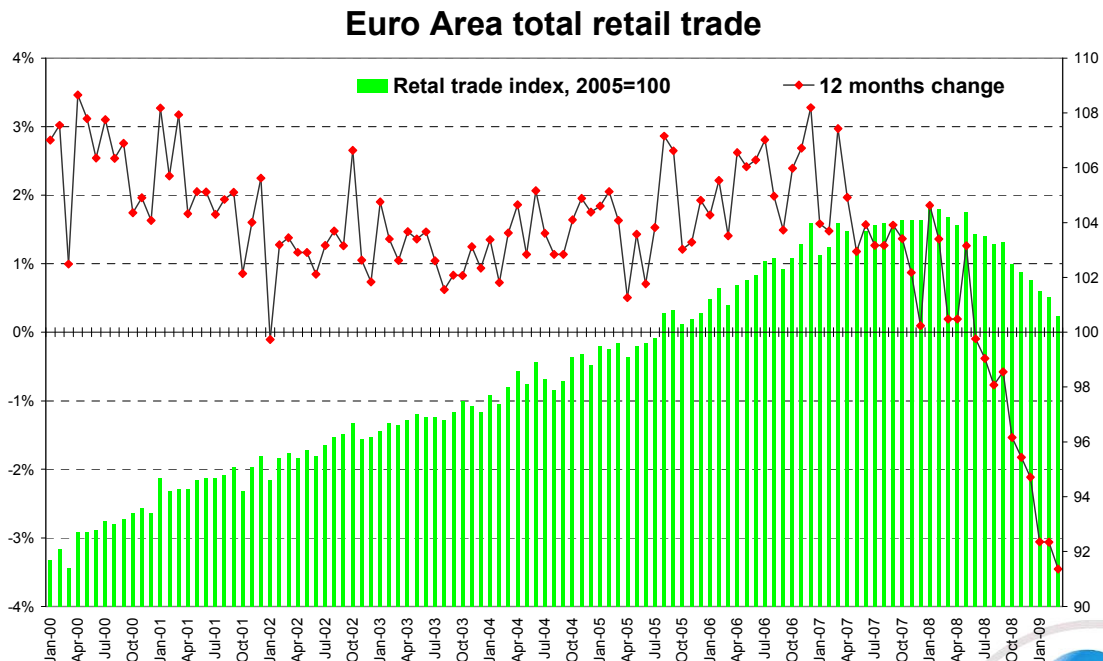
Federal Reserve, Bank of England and the ECB's Interest rate



The euro zone purchasing managers' index reached 43.9 points in May, according to an initial estimate, higher than expected. This figure indicates continued recession, but at weaker intensity.

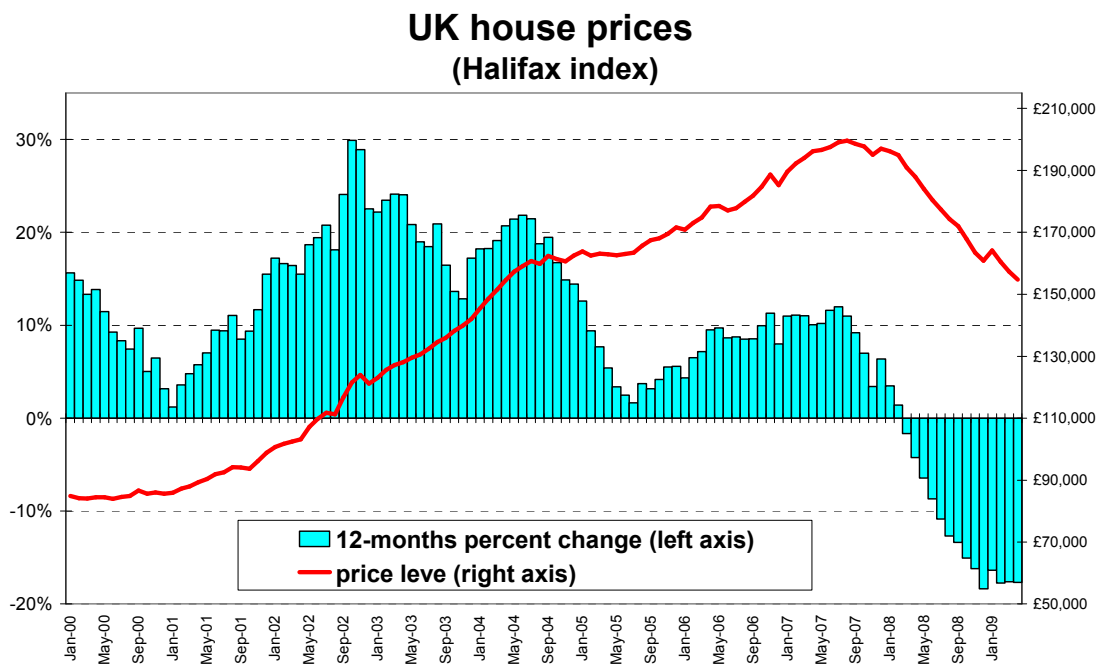


The index of retail sales in the euro zone decreased by 0.6 percent, a sharper-than-expected decline.



GDP in the UK contracted by 1.9 percent in the first quarter of 2009 (negative 7.4 percent in annualized terms), similar to the previous estimate. **UK retail sales** grew by a surprising 0.9 percent in April.

The **UK's Halifax house price index** fell by 1.7 percent in April, down 22 percent from the peak in August 2007.



Japan

Growth data for the first quarter of 2009 were extremely poor, but slightly above expectations. **GDP** contracted at an annualized rate of 15.2 percent, with sharp declines in exports and investments. This was the worst growth rate in Japan since World War II, and the fourth consecutive quarter of contraction of the economy. Furthermore, the previous quarter's figure was adjusted downward, from negative 12 percent to negative 14.4 percent.

E. Macroeconomic Forecasts

Detailed forecasts for 2009-2014, including growth rates and other real changes, nominal changes, price changes and developments in exchange rates and in the labor market are presented in the following five tables.



Table 1. Growth Rates of Real GDP and Its Components, 2007-2014

Real Growth Rates (percent)	2007	2008	2009	2009	2010	2011	2012	2013	2014
	avg.	avg.	Q1	avg.	avg.	avg.	avg.	avg.	avg.
GDP	5.4	3.9	1.7	-0.2	1.4	3.5	3.8	4.0	3.9
Private consumption	6.7	3.6	-1.1	-2.0	3.3	3.6	3.9	4.0	4.1
By Israeli households	6.8	3.6	-1.3	-2.3	3.4	3.6	3.9	4.0	4.2
By households in the domestic market	6.7	4.4	-2.0	-1.5	3.8	4.0	4.1	4.1	4.2
Public consumption	2.9	3.8	-1.4	2.3	2.9	2.3	1.8	1.7	1.7
Public domestic consumption	3.8	3.5	0.6	2.1	2.0	3.1	2.6	2.2	2.1
Gross capital formation	12.0	3.7	20.3	1.2	2.0	3.9	5.8	6.4	5.9
Fixed investment	15.5	4.6	-8.7	-6.4	3.3	4.0	5.1	5.7	5.0
Exports	8.5	2.3	-29.2	-24.3	4.0	4.8	5.6	5.8	5.9
Exports excl. diamonds and start-ups	10.0	6.4	-23.1	-19.8	4.1	3.9	5.0	5.3	5.4
Exports of goods	9.0	0.3	-31.4	-25.8	4.4	4.0	5.4	5.6	6.0
Exports of other goods	10.2	8.1	-24.5	-20.8	5.0	2.7	4.6	5.0	5.4
Exports of services	7.5	7.1	-23.7	-20.5	3.3	6.5	5.8	6.3	5.8
Imports	11.7	1.9	-28.0	-23.8	8.3	4.4	5.4	5.7	5.9
Imports of goods	10.3	0.6	-31.5	-25.8	9.2	4.0	4.9	5.3	5.6
Imports of civil goods cif	11.1	0.2	-31.8	-27.9	8.6	4.7	5.7	6.0	6.1
Imports of services	16.4	5.7	-15.6	-16.8	6.1	5.5	6.9	6.5	6.8
GDP business	6.2	4.3	1.7	-1.6	1.1	3.9	4.4	4.7	4.6
GDP/person	3.5	2.0	0.0	-1.9	-0.3	1.8	2.2	2.4	2.4

Forecast date: May 31, 2009

*change over same quarter in previous year

Table 2. Growth Rates of Nominal GDP and Its Components, 2007-2014

Nominal Growth Rates (percent)	2007	2008	2009	2009	2010	2011	2012	2013	2014
	avg.	avg.	Q1	avg.	avg.	avg.	avg.	avg.	avg.
GDP	5.12	6.00	4.82	0.33	5.04	6.81	6.43	6.31	6.01
Private consumption	7.56	8.45	-0.45	-2.57	6.29	5.67	5.65	5.75	5.85
By Israeli households	7.63	8.43	-0.68	-2.99	6.31	5.69	5.72	5.85	6.02
By households in the domestic market	7.61	9.08	-0.90	-2.57	6.14	6.19	6.01	5.96	6.01
Public consumption	3.78	7.44	-0.66	1.69	7.55	6.82	5.35	4.82	4.74
Public domestic consumption	5.27	8.24	0.76	1.19	7.05	7.61	6.07	5.31	5.19
Gross capital formation	11.34	0.64	22.98	2.38	4.54	6.92	7.98	8.44	7.06
Fixed investment	14.58	2.20	-4.96	-2.08	5.29	6.58	7.34	7.96	6.77
Exports	4.48	-2.10	-19.55	-15.12	4.99	6.88	6.11	5.96	5.25
Exports excl. diamonds and start-ups	5.01	0.28	-11.96	-10.34	5.13	5.68	5.37	5.32	4.58
Exports of goods	5.94	-1.75	-22.68	-18.57	5.14	5.76	5.94	5.80	5.57
Exports of other goods	6.11	4.04	-14.04	-13.47	6.01	4.13	5.00	5.06	4.81
Exports of services	1.19	-2.93	-11.86	-7.03	4.70	9.20	6.47	6.26	4.61
Imports	9.55	-0.30	-22.56	-16.62	8.56	5.15	4.95	5.18	4.69
Imports of goods	9.15	0.48	-27.71	-21.40	8.42	5.15	4.85	5.17	4.55
Imports of civil goods cif	10.11	0.67	-27.60	-22.40	8.24	5.73	5.52	5.71	5.03
Imports of services	10.84	-2.76	-4.37	-1.22	8.92	5.13	5.20	5.22	5.07
GDP business	5.84	5.92	5.46	0.54	5.17	7.22	7.27	7.19	6.93

Forecast date: May 31, 2009

*change over same quarter in previous year

Table 3. Changes in Price Deflators of GDP and Its Components, 2007-2014

Changes in price deflators (percent)	2007	2008	2009	2009	2010	2011	2012	2013	2014
	avg.	avg.	Q1	avg.	avg.	avg.	avg.	avg.	avg.
GDP	-0.2	2.1	3.0	0.5	3.5	3.2	2.6	2.2	2.0
Private consumption	0.8	4.7	0.6	-0.6	2.9	2.0	1.7	1.7	1.6
By Israeli households	0.8	4.7	0.6	-0.7	2.8	2.0	1.7	1.7	1.8
By households in the domestic market	0.9	4.5	1.1	-1.1	2.3	2.1	1.8	1.8	1.7
Public consumption	0.9	3.5	0.7	-0.6	4.6	4.4	3.4	3.0	3.0
Gross capital formation	-0.6	-2.9	2.2	1.2	2.5	2.9	2.1	1.9	1.1
Fixed investment	-0.8	-2.3	4.1	4.6	1.9	2.5	2.1	2.1	1.7
Exports	-3.7	-4.3	13.6	12.1	0.9	2.0	0.5	0.1	-0.6
Exports of goods	-2.8	-2.0	12.8	9.7	0.7	1.7	0.5	0.2	-0.4
Exports of other goods	-3.7	-3.7	13.8	9.2	0.9	1.4	0.3	0.1	-0.6
Exports of services	-5.9	-9.3	15.5	16.9	1.4	2.5	0.6	0.0	-1.1
Imports	-2.0	-2.1	7.5	9.4	0.2	0.7	-0.5	-0.5	-1.2
Imports of goods	-1.0	-0.2	5.5	5.9	-0.7	1.1	0.0	-0.1	-1.0
Imports of civil goods cif	-0.8	0.5	6.2	7.7	-0.4	1.0	-0.2	-0.2	-1.0
Imports of services	-4.7	-8.0	13.3	18.7	2.7	-0.3	-1.6	-1.2	-1.7
GDP business	-0.3	1.5	3.7	2.2	4.0	3.2	2.8	2.4	2.2
Terms of trade (goods and Services)	-1.8	-2.2	5.7	2.5	0.7	1.3	1.0	0.6	0.6
Dollar exchange rate	4.108	3.588	4.058	4.046	4.066	4.092	4.072	4.046	3.990
annual change (percent)	-7.8	-12.7	12.0	12.8	0.5	0.6	-0.5	-0.6	-1.4
Basket exchange rate	4.744	4.227	4.617	4.668	4.731	4.761	4.737	4.707	4.642
annual change (percent)	-5.5	-10.9	7.3	10.4	1.4	0.6	-0.5	-0.6	-1.4
CPI	95.6	100.0	100.8	102.7	105.1	107.0	109.0	111.2	113.4
annual change (percent)	0.5	4.6	3.4	2.7	2.3	1.8	1.9	2.0	2.0

Forecast date: May 31, 2009

*change over same quarter in previous year

Table 4. The Labor Market and Population, 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	avg.	avg.	avg.	avg.	avg.	avg.	avg.	avg.	avg.	avg.
Wage										
level	7,219	7,467	7,628	7,908	7,862	8,193	8,565	8,865	9,144	9,394
annual change (percent)	2.4	3.4	2.2	3.7	-0.6	4.2	4.5	3.5	3.1	2.7
annual real change (percent)	1.1	1.3	1.6	-0.9	-3.2	1.8	2.7	1.6	1.2	0.7
Employees										
level	2,723	2,801	2,926	3,039	3,054	3,103	3,180	3,248	3,314	3,383
annual change (percent)	3.4	2.9	4.5	3.9	0.5	1.6	2.5	2.1	2.0	2.1
Israeli employees										
level	2,494	2,574	2,682	2,777	2,793	2,842	2,919	2,987	3,053	3,122
annual change (percent)	3.9	3.2	4.2	3.5	0.6	1.8	2.7	2.3	2.2	2.3
Non-Israeli employees										
level	229	227	244	263	261	261	261	261	261	261
annual change (percent)	-1.8	-0.7	7.2	7.7	-0.4	0.0	0.0	0.0	0.0	0.0
Unemployed (Israelis)										
Thousands	247	236	212	180	251	272	257	240	228	205
percent of workforce	9.0	8.4	7.3	6.1	8.2	8.7	8.1	7.4	6.9	6.2
Participation rate (percent)	55.2	55.6	56.3	56.5	57.1	57.3	57.2	57.1	57.0	56.9
Population (Level)	6,930	7,054	7,180	7,310	7,440	7,566	7,690	7,813	7,933	8,052
annual change (percent)	1.8	1.8	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.5
Population 15+ (Level)	4,963	5,053	5,142	5,233	5,328	5,437	5,548	5,653	5,753	5,847
annual change (percent)	1.8	1.8	1.8	1.8	1.8	2.0	2.0	1.9	1.8	1.6

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Table 5. GDP and GDP Composition at Current Prices, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP at current prices (NIS billions)	640.78	673.55	714.15	716.50	752.58	803.85	855.56	909.51	964.17
	(as percent of GDP)								
Private consumption	55.10	56.38	57.83	56.16	56.83	56.22	55.81	55.52	55.44
By Israeli households	53.31	54.59	56.00	54.14	54.80	54.22	53.86	53.63	53.64
By households in the domestic market	53.56	54.83	56.44	54.81	55.39	55.06	54.84	54.66	54.66
Public consumption	25.52	25.20	25.15	25.49	26.10	26.10	25.84	25.48	25.17
Public domestic consumption	23.72	23.75	24.02	24.23	24.69	24.88	24.79	24.56	24.37
Gross capital formation	18.99	20.11	19.05	19.44	19.35	19.37	19.65	20.05	20.24
Fixed investment	17.13	18.68	18.06	17.62	17.66	17.63	17.78	18.05	18.18
Change in inventories	1.85	1.43	1.00	1.82	1.69	1.74	1.88	1.99	2.06
Net exports	0.39	-1.69	-2.03	-1.09	-2.28	-1.70	-1.30	-1.04	-0.85
Exports	43.43	43.17	40.01	33.85	33.84	33.86	33.76	33.65	33.40
Exports excl. diamonds and start-ups	36.64	36.61	34.76	31.06	31.09	30.76	30.45	30.17	29.76
Exports of goods	30.07	30.30	28.06	22.78	22.80	22.57	22.47	22.36	22.27
Exports of other goods	22.88	23.10	22.65	19.53	19.71	19.22	18.96	18.74	18.53
Exports of services	13.36	12.86	11.95	11.07	11.04	11.28	11.29	11.28	11.13
Imports	43.04	44.86	42.05	34.94	36.12	35.55	35.06	34.69	34.26
Imports of goods	32.72	33.98	32.09	25.14	25.95	25.55	25.17	24.90	24.56
Imports of civil goods fob	31.00	32.50	30.84	23.83	24.55	24.30	24.09	23.96	23.74
Imports of services	10.32	10.88	9.96	9.80	10.16	10.00	9.89	9.79	9.70
GDP business	73.37	73.88	73.96	74.12	74.22	74.50	75.09	75.71	76.37

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Important Announcements in the Coming Month

Title	date	Day	Time	Link
PMI (purchasing managers' index), euro zone	1Jun	Mon	11:00	http://www.markiteconomics.com/
Private income and consumption data, US	1Jun	Mon	15:30	http://bea.gov/
ISM manufacturing sector index, US	1Jun	Mon	17:00	www.ism.ws
Unemployment rate, euro zone	2Jun	Tue	12:00	www.ec.europa.eu/eurostat
1Q growth rate estimate, euro zone	3Jun	Wed	12:00	www.ec.europa.eu/eurostat
ISM service sector index, US	3Jun	Wed	17:00	www.ism.ws
Retail sales, euro zone	4Jun	Thu	12:00	www.ec.europa.eu/eurostat
Interest-rate decision, UK	4Jun	Thu	14:00	www.bankofengland.co.uk
Interest-rate decision, euro zone	4Jun	Thu	14:45	www.ecb.int
Employment report, US	5Jun	Fri	15:30	www.bls.gov
Average wages	8Jun	Mon	13:00	http://www1.cbs.gov.il/reader
Foreign trade, Israel	11Jun	Thu	13:00	http://www1.cbs.gov.il/reader
Retail sales, US	11Jun	Thu	15:30	http://www.census.gov/svsd/www/adseries.html
Current account	15Jun	Mon	13:00	http://www1.cbs.gov.il/reader
CPI, Israel	15Jun	Mon	18:30	http://www1.cbs.gov.il/reader
CPI, euro zone	16Jun	Tue	12:00	www.ec.europa.eu/eurostat
National accounting and growth data, 1Q 2009	16Jun	Tue	13:00	http://www1.cbs.gov.il/reader
Construction starts and permits, US	16Jun	Tue	15:30	http://www.census.gov/pub/const
Incoming tourists, Israel	16Jun	Tue	13:00	http://www1.cbs.gov.il/reader
CPI, US	17Jun	Wed	15:30	www.bls.gov
Retail sales, UK	18Jun	Thu	11:30	http://www.statistics.gov.uk
Industrial production index and trade and service sectors revenue index	21Jun	Sun	13:00	http://www1.cbs.gov.il/reader
Interest-rate decision, BOI	22Jun	Mon	17:30	http://www.bankisrael.gov.il/
Hotel stays	23Jun	Tue	13:00	http://www1.cbs.gov.il/reader
Sales of existing homes, US	23Jun	Tue	17:00	http://www.realtor.org/Research.nsf/Pages/EHSdata
Sales of new homes, US	24Jun	Wed	17:00	http://www.census.gov/const/www/newressalesindex.html
Fed interest decision	24Jun	Wed	21:15	http://www.federalreserve.gov/monetarypolicy/fomc.htm
1Q growth rate, US	25Jun	Thu	15:30	http://bea.gov/
Private income and consumption data, US	26Jun	Fri	15:30	http://bea.gov/
Michigan University consumer confidence index	26Jun	Fri	17:00	http://www.umich.edu/news
1Q growth rate, UK	30Jun	Tue	11:30	http://www.statistics.gov.uk
CPI estimate, euro zone	30Jun	Tue	12:00	www.ec.europa.eu/eurostat
New dwelling sold in private sector	30Jun	Tue	13:00	http://www1.cbs.gov.il/reader

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and at www.harel-finance.co.il/macro/ENG in English.

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